



R&R Weekly Column
By Brunello Rosa



Nuclear Threats And Oil Production Cuts Show That Geopolitics Is Still Central

This past week has been another very eventful one, from a geopolitical perspective. First, besides the ongoing cyberwarfare between the two sides, [which we discussed in our recent analysis](#), the threat of [a possible nuclear escalation](#) in the Russia-Ukraine conflict has become even more vivid. Initially, Russian President Vladimir Putin promoted [referenda in four Ukrainian provinces](#) which he claims are under control of the Russian army: Donetsk, Luhansk, Kherson and Zaporizhzhia. Then he ratified the results in favour of the annexation of these provinces, which the international community is not recognizing.

This was the crucial step to saying that any attack on those regions would imply a direct attack on Russia. [According to the Russian doctrine for the use of nuclear weapon](#), any threat to the security of the Russian territory - not necessarily an actual attack, but rather any threat considered “imminent” - would justify the use of the nuclear arsenal.

There is a lot of talk about the use of “tactical” nuclear weapons, which have a smaller radius of action. Commentators and the wider public opinion are even starting to consider the use of those weapons similar to that of conventional artillery. But they are not. Their use would still represent the beginning of a nuclear holocaust, not too dissimilar to what happened in the Japanese cities of Hiroshima and Nagasaki at the end of WWII. Hiroshima and Nagasaki have been in fact quoted many times by the Russian government in their rhetoric, to justify the use of Russia’s nuclear arsenal. This is the reason why [US President Biden spoke about a potential Armageddon](#) that would derive from such a possible move from the Russians.

We need to hope that the nuclear escalation does not progress further, as it is unclear how it would end. [The bombing of the Kerch bridge](#) that connects the Russian mainland to Crimea meanwhile might represent another starting point for further escalation, which is the reason now nobody wants to claim to be the author of that attack.

Also taking place this past week, the [OPEC+ cartel decided to cut oil production by around 2m barrels a day](#), in order to support falling oil prices and keep the price close to 100\$pb. The move clearly benefits Russia at this difficult juncture in its war with Ukraine, and it could have never been adopted [without the decisive input of Saudi Arabia](#), the major stakeholder of OPEC.

This confirms what we discussed in our column of a few weeks ago: [the emergence of a new bloc of countries, established around the BRICS gathering and now including Saudi Arabia as well](#) and that is in direct competition with the G7, which is centred around the US. [In one of our recent papers](#), we discussed how Saudi Arabia was re-gaining centre stage in the more multipolar world that is currently emerging. This is the reason why both President Biden and [US Treasury Secretary Yellen complained](#) about the cut to oil production inspired by Saudi Arabia, which risks tipping the global economy into a recession. And all this while [the EU struggles to find a unified position around the proposal of a price cap](#) for oil and gas imports from Russia.

These are just some of the examples that show that geopolitics remains at the centre stage in world affairs, and is one of the main determinants of key macro-financial variables, including oil prices (a crucial input for headline inflation) and GDP.

Our Recent Publications

- ✿ [Balancing Economic Promotion and Cultural Challenges in the GCC](#), by Gulf State Analytics, 6 October 2022
- ✿ [Ukraine-Russia Conflict: How Cyberwarfare Is Used Alongside Conventional Weapons](#), by London Politica, 5 October 2022

- ✿ [As the Fed Tightens Monetary Policy, It Needs to Balance Price Stability and Financial Stability](#), by Filippo Ramigni, 4 October 2022
- ✿ [Saudi Arabia Re-Gains Centre Stage in a More Multipolar World](#), by Giorgio Cafiero, 29 September 2022



Looking Ahead

The Week Ahead: US Headline Inflation To Fall, While Core Is Expected To Rise; UK Unemployment To Remain Unchanged

In the US, in September, the headline inflation rate is expected to decrease to 8.1% y-o-y (*p*: 8.3%) and core inflation is likely to rise to 6.5% y-o-y (*p*: 6.3%). Monthly inflation is seen increasing to 0.2% (*p*: 0.1%). In October, according to a preliminary estimate, consumer sentiment is expected to increase slightly to 58.9 (*p*: 58.6).

In the EZ, August's IP is likely to recover to 1.0% y-o-y (*p*: -2.4%) and 0.5% m-o-m (*p*: -2.3%).

In the UK, in August, unemployment is expected to be unchanged at 3.6%. August's IP is likely to shrink by -0.2% m-o-m (*p*: -0.3%).

The Quarter Ahead: Credit Suisse Pays Down Debt; Biden Warns Of Nuclear Risk; Ukrainian Forces Advance; Crimean Bridge Collapses

Credit Suisse will buy back \$3 bn in debt. The move came after Credit Suisse's stocks plunged by 40% year to date and bets against its debt rose substantially. The bank also announced the sale of its famous Savoy Hotel in Zurich as credit fears persist. Credit Suisse overhauled its management team after the bank lost \$5 bn from the collapse of investment firm Archegos in March 2021. The troubled bank started a massive strategic review under the new CEO, after which it will leave its investment banking business.

Biden said the nuclear threat is the worst in 60 years since the Cuban missile crisis. However, US National Security Adviser Sullivan said that the US had not detected any signs of preparations for a nuclear strike. Meanwhile, Putin signed a decree reporting that Zaporizhzhia nuclear plant belongs to Russia.

Ukraine takes back dozens of towns annexed by Russia. Ukrainian forces recaptured important areas of southern Kherson, after Russia announced last week that it 'annexed' four regions of Ukraine.

Kerch bridge linking Russia to Crimea was damaged in an explosion. Putin ordered a 'government commission' to examine the Kerch Bridge explosion in Crimea. The source of the explosion is unclear. Mykhailo Podolyak, an advisor to Zelenskyy, reported that the damage was only 'the beginning'.

Nobel Prize has been awarded to Belarusian activist Ales Bialiatski and Ukrainian and Russian human rights organizations. Organizations include Memorial founded in Russia in 1989 and the Center for Civil Liberties founded in Ukraine in 2007.

Last Week's Review

Real Economy: US Unemployment Fell And NFPs Decreased; Composite PMIs Decreased In EZ And UK, While Rose In the US

In the US, September's unemployment edged down to 3.5% (*c*: 3.7%; *p*: 3.7%) and NFPs decreased to 263K (*c*: 250K; *p*: 315K). In September, manufacturing PMI increased to 52 (*c*: 51.8; *p*: 51.5). Services and Composite PMIs rose to 49.4 (*c*: 49.2; *p*: 43.7) and to 49.5 (*c*: 49.3; *p*: 44.6) respectively.

In the EZ, in September, manufacturing and services PMIs decreased to 48.4 (*c*: 48.5; *p*: 49.6) and to 48.8 (*c*: 48.9; *p*: 49.8). Composite PMI fell to 48.1 (*c*: 48.2; *p*: 48.9). August's retail sales are likely to shrink by -0.3% m-o-m (*c*: -0.4%; *p*: 0.3%) and -2.0% y-o-y (*c*: -1.2%; *p*: -0.0%).

In the UK, in September, manufacturing PMI increased to 48.4 (*c*: 48.5; *p*: 47.3), whereas services PMI fell to 50 (*c*: 49.2; *p*: 50.9). Composite PMI decreased to 49.1 (*c*: 48.4; *p*: 49.6).

Financial Markets: Stocks Were Up And Yields Rose; Dollar, Oil and Gold Prices Are All Up

Market Drivers: Following OPEC+'s decision to slash its production targets, oil prices surged and led to outsized gains in the S&P 500. Investors also hoped that the Central Banks would begin to pause their hawkish stances, and as a result of which, equities rose.

Global Equities: Increased w-o-w (MSCI ACWI, +1.7%, to 563.00). The US S&P 500 index increased (+1.5% w-o-w, to 3,639.66). In the EZ, share prices were up (Eurostoxx 50, +1.7% w-o-w, to 3,375.46). In EMs, equity prices rose (MSCI EMs, +2.5%, to 897.74). Volatility rose significantly to 31.6 (VIX S&P 500, 52w avg.: 25.0; 10y avg.: 18.2).

Fixed Income: w-o-w, the 10-year US treasury yields rose (+6 bps to 3.89%). The 2-year US Treasury yields rose as well (+4 bps to 4.31%). The German 10-year bund yield also rose (+8 bps to 2.19%).

FX: w-o-w, the US Dollar Index was up (DXY, +0.5%, to 112.64; EUR/USD -0.6%, to 0.98). In EMs, currencies rose (MSCI EM Currency Index, +0.3% w-o-w, to 1,596.65).

Commodities: w-o-w, oil prices rose (Brent, +11.9% to 98.45 USD/b). Gold prices increased w-o-w (+1.8% to 1,701.80 USD/Oz).



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The picture in the front page comes from [this website](#)

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year